



Legislative Audit Division

State of Montana

Report to the Legislature

March 1996

Financial-Compliance Audit For the Fiscal Year Ended June 30, 1995

Department of Health and Environmental Sciences

This report contains four recommendations related to:

- ▶ Compliance with federal regulations.
- ▶ Payroll reporting procedures.

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Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant financial impact. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act of 1984 and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports regarding the state's federal financial assistance programs, including all findings of noncompliance and questioned costs. This individual agency audit report is not intended to comply with the Single Audit Act of 1984 or OMB Circular A-128 and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the reporting requirements listed above. The Single Audit Report for the two fiscal years ended June 30, 1995 has been issued. Copies of the Single Audit Report can be obtained by contacting:

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Legislative Audit Division

Scott A. Seacat, Legislative Auditor

March 1996

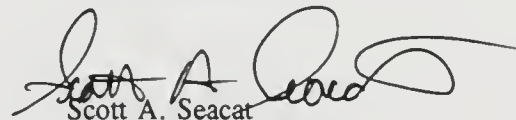
To the Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Health and Environmental Sciences for fiscal year 1994-95. The department was abolished by the 1995 Legislature and programs were transferred to the newly created Department of Environmental Quality (DEQ) and Department of Public Health and Human Services (DPHHS).

The report includes recommendations concerning compliance with federal regulations and payroll reporting procedures. The recommendations in the report are addressed to the newly created departments as appropriate.

The written responses to audit recommendations are included at the end of the audit report. We would like to thank the directors and staff of DEQ and DPHHS for their cooperation and assistance throughout the audit.

Respectfully submitted,


Scott A. Seacat
Legislative Auditor

Legislative Audit Division

Financial-Compliance Audit

For the Fiscal Year Ended June 30, 1995

Department of Health and Environmental Sciences

Members of the audit staff involved in this audit were Jody Brandt, Scott Hoversland, and Cathy Pennie.

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Appointed and Administrative Officials

Department of Health and Environmental Sciences

The Department of Health and Environmental Sciences (DHES) was eliminated by the 1995 Legislature, effective July 1, 1995. Public health programs formerly administered by DHES were transferred to the newly created Department of Public Health and Human Services (DPHHS). Environmental programs formerly administered by DHES were transferred to the newly created Department of Environmental Quality (DEQ). The director's office and central services were split between the two agencies. Administrative officials from the two agencies responsible for the programs transferred from DHES are listed below.

Department of Environmental Quality

Mark Simonich, Director
Judy Hanson, Centralized Services Division Administrator

Department of Public Health and Human Services

Peter Blouke, Director
Mike Billings, Operations and Technology Division Administrator

Summary of Recommendations

The listing below serves as a means of summarizing the recommendations contained in the report, the departments' responses thereto, and a reference to the supporting comments.

Recommendation #1

We recommend DPHHS:

- A. Comply with cash draw requirements in the Cash Management Improvement Act agreement for the Child and Adult Care Food Program.

DPHHS Response: Concur. See page B-4.

- B. Ensure automated files supporting Child and Adult Care Food Program cash draws are maintained for three years in accordance with federal regulations. 9

DPHHS Response: Concur. See page B-4.

Recommendation #2

We recommend DPHHS continue to resolve discrepancies and ensure future reports submitted to the federal government for the Child and Adult Care Food Program contain consistent and accurate information. 10

DPHHS Response: Concur. See page B-4.

Recommendation #3

We recommend DEQ ensure employees charge their time to the accounts benefitting from their activities. 11

DEQ Response: Concur. See page B-7.

Recommendation #4

We recommend:

- A. DEQ ensure the financial activity of environmental programs transferred to the department is recorded in accordance with state accounting laws and policies.

DEQ Response: Concur. See page B-7.

- B. DPHHS ensure the financial activity of the public health programs transferred to the department is recorded in accordance with state accounting laws and policies. 14

DPHHS Response: Concur. See page B-5.

Introduction

General

The 1995 Legislature approved departmental reorganizations which affected the Department of Health and Environmental Sciences (DHES). The reorganizations, which were effective July 1, 1995, eliminated DHES and transferred the programs to the newly created Departments of Environmental Quality (DEQ) and Public Health and Human Services (DPHHS). The following table demonstrates the transfer of programs from DHES to DEQ and DPHHS.

Table 1

Transfer of Programs

<u>Program(1)</u>	<u>Transferred to</u>
Directors Office	DEQ & DPHHS(2)
Central Services Division	
Support Services	DEQ & DPHHS(2)
Public Health Lab	DPHHS(3)
Chemistry Lab	DPHHS(3)
Information Services	DEQ
Air Quality Division	DEQ
Environmental Remediation Division	DEQ
Water Quality Division	DEQ
Health Services Division	DPHHS(4)
Health Facilities Division	DPHHS
Health Care Authority	(5)
Petro Tank Release Comp Board	DEQ
Waste Management Division	DEQ

- (1) A description of the program is provided in the following Background section of this report.
- (2) FTE in these programs were allocated to the newly created departments. The Board of Health and Environmental Sciences was abolished.
- (3) The labs were initially allocated to DEQ but were transferred to DPHHS by executive order.
- (4) The division includes the Family/Maternal and Child Health Bureau and Preventative Health Bureau.
- (5) The Health Care Authority was abolished by the 1995 Legislature.

Source: Compiled by the Legislative Audit Division from information provided by the Governor's Office.

Due to the elimination of the Department of Health and Environmental Sciences (department) and in order to meet the requirement for continuous audit coverage in the Legislative Audit Act, we

Introduction

performed a financial-compliance audit of the department for fiscal year 1994-95. The objectives of the audit were to:

1. Determine if the department's financial schedules present fairly the results of operations for the fiscal year ended June 30, 1995.
2. Determine implementation status of prior audit recommendations.
3. Determine if the department complied with applicable laws and regulations.
4. Make recommendations to DEQ and DPHHS for improvement in the internal, administrative, and management controls of programs transferred from the department.

In accordance with section 5-13-307, MCA, we analyzed and disclosed the cost, if significant, of implementing the recommendations contained in this report. Additional areas of concern deemed not to have a significant effect on the successful operations of the department are not specifically included in the report, but have been discussed with appropriate management.

Background

The department was created to protect and promote the health of the people of Montana through implementation of public health programs and the enforcement of public health laws and regulations. The department was also responsible for ensuring that a safe and healthful environment existed in Montana through implementation of environmental protection programs and enforcement of environmental laws and regulations.

In addition to the Director's Office, which included the Board of Health and Environmental Sciences and the legal unit, the department had the following seven divisions during the audit period:

Centralized Services Division performed the general administrative and fiscal support functions of the department. The division included the Support Services, Chemistry Laboratory, Public Health Laboratory, and Information Services Bureaus.

Health Services Division included the department's health planning functions and was primarily responsible for administering

certificate of need laws and rules. The division included the Emergency Medical Services, Preventive Health Services, Family/Maternal and Child Health, Vital Records and Statistics, and Food and Consumer Safety Bureaus.

Health Facilities Division was responsible for the regulatory oversight of health care facilities. This included issuing licenses, granting medicaid certification, recommending medicare certification, and approving renovation and new construction projects for all health care facilities. The division included the Certification and Licensure Bureaus.

Air Quality Division consisted of two major program areas, Air Quality and Occupational and Radiological Health. The Air Quality Program was responsible for maintaining outdoor air quality levels considered safe for public health and welfare through permit review, inspections, monitoring, and information dissemination. The Occupational and Radiological Health Bureau was responsible for: 1) the administration of the Radiological Health Program, with primary emphasis on inspection of x-ray machines; 2) the regulation of asbestos consultants, contractors, and workers; and 3) the provision of measurement and technical expertise to ensure safety in homes and work places.

Environmental Remediation Division was responsible for the clean-up of sites contaminated by a variety of substances and activities. Programs administered by the division included Federal Superfund, State Superfund, and the remediation portion of the Underground Storage Tank Act.

Water Quality Division was responsible for the protection of public health and the environmental quality of Montana's water resources. The division administered the Montana Water Quality Act, the Sanitation in Subdivision Act, the Water/Wastewater Operator Certification law, and other Montana laws regarding public water supplies.

Waste Management Division administered environmental health laws designed to protect public health and the environment. Programs administered by the division included Solid Waste Management, Motor Vehicle Recycling and Disposal, Hazardous Waste, and the licensing portion of the Underground Storage Tank Act.

The Petroleum Tank Release Compensation Board is a statutory board administratively attached to the department. The board was created by Chapter 528, Laws of 1989. The board consists of seven members appointed by the governor. The board was

Introduction

established to ensure the cleanup of petroleum products which leak from storage tanks, and to reimburse the owners or operators of eligible tanks for their expenses in cleaning up such leaks. The board also compensates persons who live on or own property near leaking tanks for any bodily injury or property damage they may sustain as a result of the leaks.

The 1993 Legislature established the Montana Health Care Authority effective in fiscal year 1993-94. The authority was allocated to the department for administrative purposes and was responsible for establishing a health care plan for the state of Montana. The authority was abolished by the 1995 Legislature.

Prior Audit Recommendations

Prior Audit Recommendations

The prior financial-compliance audit of the Department of Health and Environmental Sciences for the two fiscal years ended June 30, 1994, contained 11 recommendations. Of the eleven recommendations, the department fully implemented five, partially implemented three, and did not implement three.

Those prior audit recommendations which were not implemented dealt with developing and communicating department-wide policies and procedures (discussed below), funds for local water pollution control facilities' matching funds (discussed below), and charging time to accounts benefitting from activities, which is discussed on page 11 of this report.

The partially implemented recommendations relate to subrecipient monitoring (discussed below), policies and procedures related to computer security (discussed below), and accounting issues discussed on page 11 of this report.

Policies and Procedures

Department-wide Policies and Procedures

In our previous audit, we recommended the department develop appropriate department-wide policies and procedures in a timely manner, and ensure the policies and procedures are communicated and followed by employees. During the current audit, department personnel noted no policies and procedures were established because the prior audit was released in December 1994 and the legislature met the following month and introduced legislation to eliminate the department.

Subrecipient Monitoring

The federal Single Audit Act of 1984 and Office of Management and Budget Circular A-128 require the department to determine whether those entities annually receiving subgrants of at least \$25,000 in federal financial assistance during a fiscal year comply with applicable federal requirements. To ensure subrecipients are in compliance, the department should obtain and review subrecipient audit reports. The department is also responsible for resolving any findings and questioned costs related to the funds it subgrants. Failure to adequately monitor subrecipient contracts

Prior Audit Recommendations

results in a lack of assurance that such contracts are properly administered. Noncompliance could result in the loss of federal funding.

In the prior audit report, department officials stated they intended to modify their contract database to alert the internal auditor of all audits required from subrecipients receiving \$25,000 or more annually. Department officials also stated they would review their subrecipient monitoring policy and make changes to more clearly delineate responsibilities for subrecipient monitoring. The department did not complete the above items, since the department was disbanded as of June 30, 1995.

Computer Security

The previous audit report recommended the department adopt policies and implement procedures to ensure security over computer data and information resources in accordance with state policy. During the current audit, Information Services Bureau personnel noted a computer security policy was adopted. However, related procedures have not been adopted since the department was disbanded as of June 30, 1995.

Summary

The above prior audit recommendations are included in the state of Montana's Single Audit Report for fiscal years 1993-94 and 1994-95, with updated responses from both the Departments of Environmental Quality and Public Health and Human Services. We will review these issues further in the next audit of each department.

Local Water Pollution Control Facilities' Matching Funds

The previous audit report recommended the department seek legislation to appropriately revise state law regarding matching funds for local water pollution control facilities. The department did not concur with the recommendation and noted the recommendation was made late in the bill drafting process, and they believe the provision of the law should be left in place in case future federal requirements include a matching provision.

The 1995 Legislature abolished the Board of Health and Environmental Sciences and created the Board of Environmental Review, which is attached to the Department of Environmental Quality. The Board of Environmental Review is responsible for

Prior Audit Recommendations

administering the laws to which the prior audit recommendation pertains. We will further review this issue during our next audit of the Department of Environmental Quality.

Findings and Recommendations

Federal Cash Management

The agreement between the state of Montana and the U.S. Secretary of the Treasury sets forth the terms and conditions agreed to by the state of Montana and the federal government to implement the requirements of the federal Cash Management Improvement Act of 1990 (CMIA). The agreement with the state of Montana took effect on July 1, 1993. The department received funding from the U.S. Department of Agriculture for its Child and Adult Care Food Program (CFDA #10.558). Beginning in fiscal year 1994-95, the Child and Adult Care Food Program is included under the state's CMIA agreement. To comply with the CMIA agreement, the department must draw funds based on the required three day warrant clearance pattern established by the Department of Administration. The clearance pattern is an estimate of the amount of time required for warrants to clear the bank. By drawing funds in accordance with the established clearance pattern, the department can ensure federal cash is appropriately managed.

We reviewed the department's procedures for requesting federal funds in accordance with the CMIA agreement. For the first three months in calendar year 1995, we determined the department established a system to draw the federal funds in accordance with the CMIA warrant clearance pattern. For the months we reviewed, we noted six instances where the system the department established was not followed and federal cash was requested from one to three days late with amounts ranging from \$1,407 to \$405,055.

According to department personnel, in April 1995, federal personnel were in Helena and reviewed the cash draw spreadsheets completed by the department. Based on this review, federal personnel incorrectly determined the department was drawing federal funds earlier than allowed by the CMIA. In response to the federal review, the department changed the system used from the CMIA agreement clearance pattern, which was three days, to four days. The change made by the department resulted in the department drawing one day later than required by the CMIA agreement for the last three months of fiscal year 1994-95.

By not drawing federal funds as soon as allowed, the department uses state funds until the federal funds are drawn and received.

Findings and Recommendations

This results in lost interest to the state, since these funds would otherwise be invested.

The Department of Administration is required to complete the annual interest calculation report for the state of Montana. The Department of Administration obtains daily cash balances, warrants issued, and federal cash draws for each fiscal year from monthly spreadsheets prepared by DHES. DHES was unable to locate the spreadsheets for the first six months of fiscal year 1994-95. As a result, the Department of Administration is unable to verify compliance with the CMIA agreement. Federal regulations require records be retained by the department for a minimum of three years.

Recommendation #1

We recommend DPHHS:

- A. Comply with cash draw requirements in the Cash Management Improvement Act agreement for the Child and Adult Care Food Program.**
- B. Ensure automated files supporting Child and Adult Care Food Program cash draws are maintained for three years in accordance with federal regulations.**

Federal Reporting

Federal regulations require the department to submit a final financial status report for the Child and Adult Care Food Program (CFDA #10.558) within 120 days after the end of the federal fiscal year. This report is compiled using financial information from the state's accounting system. The department is also required to submit a report on the Child and Adult Care Food Program for each month of operation to document the number of meals served in institutions under the department's oversight. This report is compiled by the department using information from its computer system.

Findings and Recommendations

The department submitted these reports in accordance with the federal requirements. However, when the federal government compared the information contained in the two reports there were discrepancies. According to department personnel, manual adjustments were made which were not reflected on the internal computer system; however, these adjustments were recorded on the state's accounting system.

The U.S. Department of Agriculture accepted the reports; however, they only authorized payment of the lower amount from the reports. Department personnel stated the federal government uses the lowest amount from each report in determining the funding the state will receive. As a result of the discrepancies, the state was authorized approximately \$50,000 less than expended in federal fiscal year 1993-94.

The U.S. Department of Agriculture allows the state to submit a modification report which will increase the state's authorized amount. Department personnel are currently working on resolving the discrepancies and submitting the modified report. As of January 23, 1996, the department had not resubmitted the required report. If the department does not submit the required report approximately \$50,000 of state funds will be needed to pay these costs.

Recommendation #2

We recommend DPHHS continue to resolve the discrepancies and ensure future reports submitted to the federal government for the Child and Adult Care Food Program contain consistent and accurate information.

Payroll Reporting Procedures

The department recorded expenditures in excess of \$15 million in fiscal year 1994-95 for personal services. The department's policy and procedures manual contained a policy which states "The payroll report . . . must accurately reflect the employee's work schedule for each two-week period." Federal regulations also require payroll reports to reflect the actual activity of each employee. In addition, federal regulations note that if budget estimates or other distribution percentages are used for interim accounting purposes, the accounting records and costs charged to the federal program must be adjusted at least quarterly.

During our prior financial-compliance audit and a performance audit of the Water Quality Division (94P-36), we found the Agricultural Chemical Groundwater Protection (ACGP) account was charged for a percentage of personal services regardless of the actual amount of time staff spent on projects related to the account. During the current financial-compliance audit, division personnel noted that the ACGP account is charged for 25 percent of the staff person's time who is assigned to work on ACGP related projects. The other 75 percent of the person's time is charged to various federal accounts. The percentage is based on an estimate made by the division. Division personnel noted the percentage is not adjusted quarterly to reflect actual time spent on each activity.

Recommendation #3

We recommend DEQ ensure employees charge their time to the accounts benefitting from their activities.

Accounting Issues

In the prior audit report, we recommended the department record its financial activity on the accounting records in accordance with state accounting laws and policies. Section 17-1-102(5), MCA, requires state agencies to record all transactions before the accounts are closed at the end of the fiscal year to present the receipt, use, and disposition of money and property for which the agency is accountable in accordance with generally accepted accounting

Findings and Recommendations

principles. The Department of Administration establishes state accounting policy, as outlined in the Montana Operations Manual, to facilitate compliance with this state law.

Throughout the audit, we noticed improvement has been made on this issue and determined the prior audit recommendation is partially implemented. However, we noted the following issues which indicate continued improvement is necessary.

Cash Cutoff Procedures

During the period after June 30, but prior to closing the accounting records, state accounting policy requires agencies to use special procedures to record cash transactions. Under this policy, agencies can only use the cash control account when correcting errors within the same accounting entity. At the end of fiscal year 1994-95, the department improperly used the alternative procedures. As a result, receivable and payable accounts were each overstated by \$33,054 in the General Fund and \$218,345 in the Special Revenue Fund at the end of fiscal year 1994-95 for both the public health and environmental programs.

Revenue Classifications

The department's centralized functions within the Director's Office and the Centralized Services Division were funded by assessing a charge to all other programs within the department. The purpose of the assessment is to ensure that all programs and funding sources contribute to the support of these functions. Since federal programs are involved, the department negotiates the charges with the federal government. This rate is applied to actual personal service costs in each program.

The department records all revenue from the indirect charges as Federal Indirect Cost Recoveries in the Internal Service Fund. State accounting policy notes that all non-federal cost recoveries should be recorded as Charges for Services. Since the indirect charge is assessed against all programs and funding sources, a portion of the revenue should be recorded as Charges for Services. Department personnel noted they were not aware the revenue needed to be classified into different categories. As a result, Federal Indirect Cost Recoveries are overstated and Charges For

Findings and Recommendations

Services are understated by \$1,120,330 in the Internal Service Fund.

Improper Expenditure Cutoff

State accounting policy requires agencies to record expenditures for services in the year in which the services are received. During our review of the department's transactions, we noted the following expenditures which were not recorded in the proper fiscal year.

- The department did not accrue a payable and related expenditure for approximately \$91,340 for contracted services incurred prior to June 30, 1994 but not paid until fiscal year 1994-95. These expenditures were for contracts the Montana Health Care Authority had with vendors. Department personnel noted inexperience of the Health Care Authority staff with accounting policies led to the expenditures not being accrued. As a result, Prior Year Expenditure Adjustments and Support From State of Montana are overstated by \$91,340 in the General Fund for fiscal year 1994-95.
- At fiscal year-end 1994-95, the department did not accrue a payable and related expenditure for approximately \$260,740 of contract payments to child care providers for reimbursement of meal expenses. These payments were for meals served by the providers in May and June of 1995 and should have been accrued at fiscal year-end 1994-95. Department personnel noted the payments did not get processed prior to fiscal year-end, therefore were recorded as prior year transactions in fiscal year 1995-96. As a result, expenditures and liabilities are understated by \$260,740 in the Special Revenue Fund at fiscal year-end 1994-95.

Improper Revenue Accruals

We noted the department improperly accrued approximately \$400,000 of revenue related to environmental programs at fiscal year-end 1994-95. The improper accrual of revenue was a result of human error. As a result, revenues and receivables were overstated by \$400,000 in the Special Revenue Fund at fiscal year-end 1994-95. These errors were corrected by DEQ in fiscal year 1995-96.

Findings and Recommendations

Unreconciled Federal Public Health Account

In the previous two audits, we recommended the department analyze and correct the balances in the federal Public Health account. In the previous audit, the department noted the account had been partially reconciled and personnel believed most of the remaining balance (approximately \$19,300 at June 30, 1994) resulted from non-federal activity. State accounting policy defines a federal Special Revenue Fund as a fund consisting of money deposited from federal sources. The reimbursement from non-federal sources should not be recorded in the federal account. Agency personnel noted during our current audit that the account has not been reconciled. DPHHS should reconcile the federal public health account.

Summary

Without all financial activity properly recorded on SBAS, the quality, consistency, and comparability of the resulting financial information is affected.

Recommendation #4

We recommend:

- A. DEQ ensure the financial activity of environmental programs transferred to the department is recorded in accordance with state accounting laws and policies.**
- B. DPHHS ensure the financial activity of the public health programs transferred to the department is recorded in accordance with state accounting laws and policies.**

Independent Auditor's Report & Agency Financial Schedules

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying financial schedules of the Department of Health and Environmental Sciences for the fiscal year ended June 30, 1995, as shown on pages A-5 through A-11. The information contained in these financial schedules is the responsibility of the department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

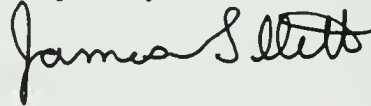
As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than generally accepted accounting principles. The schedules are not intended to be a complete presentation and disclosure of the department's assets, liabilities, and cash flows.

The 1995 Legislature approved two major departmental reorganizations which affected the Department of Health and Environmental Sciences. The reorganizations, which were effective July 1, 1995, eliminated the Department of Health and Environmental Sciences and transferred the programs to the newly created Departments of Environmental Quality and Public Health and Human Services. Financial information for these programs can be found, in future years, in the accounting records of the applicable new department.

The department records all revenue collected in the Internal Service Fund as Federal Indirect Cost Recoveries. A large portion of the indirect cost recoveries in the fund are from state funded programs and should be recorded as Charges for Services. As a result, in the Internal Service Fund for fiscal year 1994-95, Federal Indirect Cost Recoveries revenue is overstated by \$1,120,330 and Charges for Services revenue is understated by \$1,120,330.

In our opinion, except for the effects of the matter discussed in paragraph five, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Department of Health and Environmental Sciences for the fiscal year ended June 30, 1995, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "James S. Gillett". The signature is fluid and cursive, with a large initial "J" and a stylized "S".

James Gillett, CPA
Deputy Legislative Auditor

January 23, 1996

DEPARTMENT OF HEALTH & ENVIRONMENTAL SCIENCES
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 1995

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Internal Service Funds</u>
FUND BALANCE: July 1, 1994	\$ <u>0</u> ¹	\$ <u>4,406,586</u>	\$ <u>386,286</u>
ADDITIONS:			
Budgeted Revenue & Transfers In	290,705	50,407,562	2,154,480
Nonbudgeted Revenue & Transfers In	217,044	21,021	720
Prior Year Revenue Adjustments	109		55,370
Direct Entries to Fund Balance ⁴	1,984	5,935,504	83
Support From State of Montana	3,490,094		
Cash Transfers In ²		7,094,498	
Prior Year Expenditure Adjustments		115,866	11,437
Total Additions	<u>3,999,936</u>	<u>63,574,451</u>	<u>2,222,090</u>
REDUCTIONS			
Budgeted Expenditures & Transfers Out	3,942,599	53,544,157	1,841,435
Prior Year Expenditure Adjustments	57,117		
Nonbudgeted Expenditures & Transfers Out ³		4,038,216	(8,715)
Prior Year Expenditures	220	(327)	
Prior Year Revenue Adjustments		238,110	
Total Reductions	<u>3,999,936</u>	<u>57,820,156</u>	<u>1,832,720</u>
FUND BALANCE: June 30, 1995	\$ <u><u>0</u></u> ¹	\$ <u><u>10,160,881</u></u>	\$ <u><u>775,656</u></u>

¹ See note 4 on page A-10.

² See note 5 on page A-10.

³ See note 6 on page A-11.

⁴ See note 7 on page A-11.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-8.

GENERAL FUND
Estimated Reve
Actual Revenue
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SPECIAL REVENUE
Estimated Reve
Actual Revenue
Collections Ov
(Under) Esti

INTERNAL SERVIC
Estimated Reve
Actual Revenue
Collections Ov
(Under) Esti

¹ See note 8 c

This schedule

DEPARTMENT OF HEALTH & ENVIRONMENTAL SCIENCES
SCHEDULE OF BUDGETED REVENUE & TRANSFERS IN - ESTIMATE & ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1995

	Licenses and Permits	Charges For Services ¹	Investment Earnings	Fines & Forfeits	Sale of Documents & Merchandise	Grants, Contracts, Donations & Abandonments	Income Collections & Transfers	Federal	Federal Indirect Cost Recoveries ¹	Total
GENERAL FUND										
Estimated Revenue	\$ 201,000	\$ 120,000								\$ 321,000
Actual Revenue	<u>132,756</u>	<u>157,949</u>								<u>290,705</u>
Collections Over (Under) Estimate	\$ <u>(68,244)</u>	\$ <u>37,949</u>								\$ <u>(30,295)</u>
SPECIAL REVENUE FUND										
Estimated Revenue	\$ 7,324,967	\$ 4,215,811	\$271,000	\$ 80,000	\$ 4,000	\$115,291	\$ 777,500	\$44,094,847		\$56,883,416
Actual Revenue	<u>5,789,756</u>	<u>2,869,783</u>	<u>283,095</u>	<u>3,265</u>	<u>491</u>	<u>26,587</u>	<u>455,242</u>	<u>40,979,343</u>		<u>50,407,562</u>
Collections Over (Under) Estimate	\$ <u>(1,535,211)</u>	\$ <u>(1,346,028)</u>	\$ <u>12,095</u>	\$ <u>(76,735)</u>	\$ <u>(3,509)</u>	\$ <u>(88,704)</u>	\$ <u>(322,258)</u>	\$ <u>(3,115,504)</u>		\$ <u>(6,475,854)</u>
INTERNAL SERVICE FUNDS										
Estimated Revenue									\$2,285,600	\$ 2,285,600
Actual Revenue									<u>2,154,480</u>	<u>2,154,480</u>
Collections Over (Under) Estimate									\$ <u>(131,120)</u>	\$ <u>(131,120)</u>

¹ See note 8 on page A-11.

PERSONAL SERVICES

Salaries
Other Compensation
Employee Benefits
Total

OPERATING EXPENSES

Other Services
Supplies & Materials
Communications
Travel
Rent
Utilities
Repair & Maintenance
Other Expenses
Total

EQUIPMENT AND INTANGIBLE

Equipment
Intangible Assets
Total

GRANTS

From State Sources
From Federal Sources
From Other Sources
Total

BENEFITS & CLAIMS

From State Sources
From Federal Sources
Total

TRANSFERS

Accounting Entity Transfer
Total

TOTAL PROGRAM EXPENDITURES

GENERAL FUND

Budgeted
Actual
Unspent Budget Authority

SPECIAL REVENUE FUND

Budgeted
Actual
Unspent Budget Authority

INTERNAL SERVICE FUNDS

Budgeted
Actual
Unspent Budget Authority

This schedule is prepared

DEPARTMENT OF HEALTH & ENVIRONMENTAL SCIENCES
 SCHEDULE OF BUDGETED PROGRAM EXPENDITURES & TRANSFERS OUT BY OBJECT & FUND - BUDGET & ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 1995

	Director's Office	Central Services	Air Quality Division	Environmental Remediation Division	Water Quality Division	Health Services Division	Family/MCH Bureau	Preventive Health Bureau	Health Facilities Division	Health Care Authority	Petro Tank Release Comp Board	Waste Management Division	Total
PERSONAL SERVICES													
Salaries	\$373,030	\$1,411,043	\$1,274,590	\$ 851,076	\$2,263,944	\$ 972,952	\$ 904,076	\$ 857,789	\$1,231,262	\$ 188,487	\$ 583,822	\$1,158,688	\$12,070,759
Other Compensation	3,250				50					8,050			11,350
Employee Benefits	85,355	422,709	315,355	212,955	555,214	248,438	238,986	222,612	308,958	44,078	154,701	295,742	3,105,103
Total	461,635	1,833,752	1,589,945	1,064,031	2,819,208	1,221,390	1,143,062	1,080,401	1,540,220	240,615	738,523	1,454,430	15,187,212
OPERATING EXPENSES													
Other Services	23,701	222,586	314,792	2,243,397	2,513,988	664,825	2,818,158	1,525,077	31,662	247,879	120,872	168,134	10,895,071
Supplies & Materials	3,032	373,185	174,255	46,351	182,415	51,596	270,000	187,769	17,125	5,805	44,248	50,742	1,406,523
Communications	5,611	66,773	48,133	32,163	114,462	96,381	63,953	76,547	37,567	33,940	29,298	66,075	670,903
Travel	10,904	5,167	67,499	46,941	123,727	100,658	206,323	140,121	151,469	47,897	41,431	47,052	989,189
Rent	15,887	122,269	93,860	93,012	97,545	49,104	40,336	32,092	65,888	18,513	59,397	105,617	793,520
Utilities		6,125	14,565	1,645		187			2,465			74	25,061
Repair & Maintenance	1,705	68,910	5,499	3,060	11,150	9,358	7,844	3,931	8,409	28	997	5,456	126,347
Other Expenses	3,375	166,819	305,277	202,790	524,254	231,035	220,834	212,869	266,768	44,529	139,456	263,783	2,581,789
Total	64,215	1,031,834	1,023,880	2,669,359	3,567,541	1,203,144	3,627,448	2,178,406	581,353	398,591	435,699	706,933	17,488,403
EQUIPMENT AND INTANGIBLE ASSETS													
Equipment		131,296	132,534	4,596	56,630	10,921	71,131	20,084	17,824		6,961	19,288	471,265
Intangible Assets		8,749	120		28,705		5,460	2,435					45,469
Total		140,045	132,654	4,596	85,335	10,921	76,591	22,519	17,824		6,961	19,288	516,734
GRANTS													
From State Sources												44,493	44,493
From Federal Sources			217,118		24,592		11,740,105	27,116					12,008,931
From Other Sources					135,263	411,285						868,154	1,414,702
Total			217,118		159,855	411,285	11,740,105	27,116				912,647	13,468,126
BENEFITS & CLAIMS													
From State Sources											5,394,682		5,394,682
From Federal Sources							7,255,820						7,255,820
Total							7,255,820				5,394,682		12,650,502
TRANSFERS													
Accounting Entity Transfers					17,214								17,214
Total					17,214								17,214
TOTAL PROGRAM EXPENDITURES	\$525,850	\$3,005,631	\$2,963,597	\$3,737,986	\$6,649,153	\$2,846,740	\$23,843,026	\$3,308,442	\$2,139,397	\$ 639,206	\$6,575,865	\$3,093,298	\$59,328,191
GENERAL FUND													
Budgeted	\$ 31,656		\$ 296,790			\$1,430,457	\$ 1,035,046	\$ 135,586	\$ 503,654	\$ 650,000		\$ 141,637	\$ 4,224,826
Actual	20,274		228,846			1,367,775	999,267	86,149	475,855	639,206		125,227	3,942,599
Unspent Budget Authority	\$ 11,382		\$ 67,944			\$ 62,682	\$ 35,779	\$ 49,437	\$ 27,799	\$ 10,794		\$ 16,410	\$ 282,227
SPECIAL REVENUE FUND													
Budgeted	\$220,000	\$2,203,822	\$4,240,329	\$7,736,081	\$9,836,815	\$2,014,856	\$26,855,102	\$4,160,031	\$2,338,551		\$6,699,284	\$4,122,438	\$70,427,309
Actual		1,669,772	2,734,751	3,737,986	6,649,153	1,478,965	22,843,759	3,222,293	1,663,542		6,575,865	2,968,071	53,544,157
Unspent Budget Authority	\$220,000	\$ 534,050	\$1,505,578	\$3,998,095	\$3,187,662	\$ 535,891	\$ 4,011,343	\$ 937,738	\$ 675,009		\$ 123,419	\$1,154,367	\$16,883,152
INTERNAL SERVICE FUNDS													
Budgeted	\$652,378	\$1,843,024											\$ 2,495,402
Actual	505,576	1,335,859											1,841,435
Unspent Budget Authority	\$146,802	\$ 507,165											\$ 653,967

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-8.

Notes to the Financial Schedules

For the Fiscal Year Ended June 30, 1995

1. **Summary of Significant Accounting Policies**

Basis of Accounting

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental Funds. In applying the modified accrual basis, the department records:

Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.

Expenditures for valid obligations when the department incurs the related liability and it is measurable.

State accounting policy also requires the department to record the cost of employees' annual leave and sick leave when used or paid.

The department uses accrual basis accounting for Proprietary Funds. Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period earned, if measurable, and records expenses in the period incurred, if measurable.

Expenditures and expenses may include entire budgeted service contracts even though the department received the services in a subsequent fiscal year. Expenditures and expenses may also include goods and equipment ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the Statewide Budgeting and Accounting System without adjustment. Accounts are organized in funds according to state law. The department uses the following funds:

Governmental Funds

General Fund - to account for all financial resources except those required to be accounted for in another fund. The department's General Fund support is used to completely fund state licensure and

Notes to the Financial Schedules

Montana Health Care Authority activities, to match federal funds for Medicaid certification activities for all health care providers, to support the Food and Consumer Safety Bureau and Emergency Medical Services Bureau activities, and to fund the statewide voluntary genetics program.

Special Revenue Fund - to account for proceeds of specific revenue sources legally restricted to expenditures for specific purposes. Department Special Revenue Funds include federal activity such as the Wastewater Treatment Grant and other Environmental Protection Agency grants; the Maternal and Preventative Health Block Grants; the Women, Infants, and Children Program; and Child Nutrition Program. State Special Revenue Funds include the petroleum storage tank cleanup, hazardous waste/Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), underground storage tank, leak prevention, solid waste management, air quality, public drinking water, subdivision plat review, environmental quality protection, laboratory testing, and junk vehicle programs.

Proprietary Funds

Internal Service Fund - to account for providing goods or services to other agencies or departments on a cost-reimbursement basis. The department's Internal Service Fund includes indirect charges assessed against all units of the department by the Director's Office and Centralized Services Division for providing department-wide support functions and services.

2. Annual and Sick Leave

Employees at the department accumulate both annual and sick leave. The department pays employees for 100 percent of unused annual and Fair Labor Standards Act (compensatory) leave credits and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for annual, compensatory, and sick leave are not reflected in the accompanying financial schedules. In the Proprietary Funds, the increase in annual and compensatory leave liability and 25 percent of the increase in sick leave are recognized as nonbudgeted expenses when the related liability is recorded at year-end. The department absorbs expenditures for termination pay in its annual operational costs. At June 30, 1995, the department had a liability of \$1,092,868 for annual leave, \$549,012 for sick leave, and \$53,340 for compensatory leave. Of

Notes to the Financial Schedules

the \$1,695,220 total for compensated leave, \$200,879 was a liability of the Internal Service Funds and \$1,494,341 was a liability of other funds.

3. Pension Plan

Employees are covered by the Montana Public Employees' Retirement System (PERS). The department's contribution to PERS was \$856,384 in fiscal year 1994-95.

4. General Fund Balance

The General Fund is a statewide fund. Each agency does not have a separate General Fund since their only authority is to pay obligations from the statewide General Fund within their appropriation limits. Thus, on an agency's schedules, the General Fund beginning and ending fund balance will always be zero.

5. Cash Transfers In

In fiscal year 1989-90, the Petroleum Tank Release Compensation Board was established. Money is collected in the amount of .75 of a cent per gallon of gasoline distributed within the state after July 1, 1991, and .75 of a cent for each gallon of aviation gasoline, special fuel, and heating oil distributed after July 1, 1993. The Department of Transportation is responsible for collecting the funds and depositing the money in the department's Petroleum Storage Tank Cleanup account. The department received cash transfers in totalling \$5,675,846 in fiscal year 1994-95 from the gasoline fees.

The department is statutorily allocated a percentage of the Resource Indemnity Trust (RIT) Fund interest. In fiscal year 1994-95, the Department of Revenue transferred \$1,336,839 in interest earned on the RIT. The department receives two separate allocations of RIT interest. The percentage allocated is 6 percent for the environmental quality protection fund and 18 percent for the hazardous waste/CERCLA fund.

Notes to the Financial Schedules

6. Nonbudgeted Transfers Out

The U.S. Environmental Protection Agency (EPA) implemented the state Water Pollution Control Revolving Fund Capitalization Grant Program (SRF) as required by the Clean Water Act. The program awards grants to states to capitalize funds that will provide assistance for water pollution control purposes. In coordination with the Department of Natural Resources and Conservation, the department records a nonbudgeted transfer out for SRF loans to municipalities for construction of treatment works, or development and implementation of pollution control programs and plans. The department recorded nonbudgeted transfers out of \$4,038,216 for fiscal year 1994-95.

7. Direct Entries to Fund Balance

The department transferred account balances of \$5,937,488 related to the Natural Resource Damage Program to the Department of Justice. This transfer was to complete the movement of the program to the Department of Justice.

8. Federal Indirect Cost Recoveries

The department records all revenue collected in the Internal Service Fund as Federal Indirect Cost Recoveries. A large portion of the indirect cost recoveries in the fund are from state funded programs and should be recorded as Charges for Services. As a result, approximately \$1,120,330 of Federal Indirect Cost Recoveries revenue should be recorded as Charges for Services revenue.

9. Reorganization

The 1995 Legislature approved departmental reorganizations which affected DHES. The reorganizations, which were effective July 1, 1995, eliminated DHES and transferred the programs to the newly created Department of Environmental Quality (DEQ) and the Department of Public Health and Human Services (DPHHS). The Director's Office and Centralized Services Division positions were allocated to both DEQ and DPHHS. The health related programs were transferred to DPHHS and all environmental programs were transferred to DEQ. As a result of the legislation, both the Board of Health and Environmental Sciences and the Health Care Authority were abolished.

Agency Response

DEPARTMENT OF
PUBLIC HEALTH AND HUMAN SERVICES



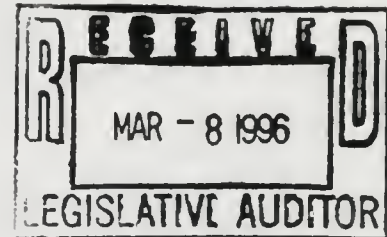
MARCRACICOT
GOVERNOR

PETER S. BLOUKE, PhD
DIRECTOR

STATE OF MONTANA

March 8, 1996

Scott A. Seacat
Legislative Auditor
State Capitol
Helena MT 59620



Dear Mr. Seacat:

Enclosed is the Department of Public Health and Human Services written reply to the audit report of the Department of Health and Environmental Sciences for the state fiscal year ending June 30, 1995. A computer disk with the responses is also included along with two copies of the draft report.

If you have any questions concerning the responses please contact Bill Wells (# 4050) or Eric Merdinger (# 4120).

Sincerely,

A handwritten signature in cursive script that reads "Michael Billings".

Michael Billings, Administrator
Operation & Technology Division

File: A:\RECDPHHS

Recommendation #1

We recommend DPHHS:

- A. Comply with cash draw requirements in the Cash Management Improvement Act agreement for the Child and Adult Care Food Program.
- B. Ensure automated files supporting Child and Adult Care Food Program cash draws are maintained for three years in accordance with federal regulations.

Response:

The Department of Public Health and Human Services is now drawing cash for the Child and Adult Care Food Program in compliance with CMIA, and the supporting documentation will be maintained for three years.

Recommendation #2

We recommend DPHHS:

- A. Continue to resolve the discrepancies and ensure future reports submitted to the federal government for the Child and Adult Care Food Program contain consistent and accurate information.

Response:

The modification report was submitted on January 31, 1996 in the SNIIPS (State Nutrient Integrated Information System). Future reports will be compared to ensure consistent data are provided.

Recommendation #3

We recommend DEQ:

- A. Ensure employees charge their time to the accounts benefitting from their activities.

Response:

The response will be provided by the Department of Environmental Quality.

Recommendation #4

We recommend:

- A. DEQ ensure the financial activity of environmental programs transferred to the department is recorded in accordance with state accounting laws and policies.
- B. DPHHS ensure the financial activity of the public health programs transferred to the department is recorded with state accounting laws and policies.

Response:

As was the practice of the Department of Social and Rehabilitation Services, the Department of Public Health and Human Services will continue to utilize the cash cutoff control accounts during fiscal year end.

The Department of Public Health and Human Services has discontinued using the indirect rate structure in the Internal Service Fund. All agency activity is being reorganized under the cost allocation plan formally utilized by the Department of Social and Rehabilitation Services. The Internal Service Fund will be reconciled and distributed back to the appropriate funds.

As was the practice at the Department of Social and Rehabilitation Services, the Department of Public Health and Human Services will process accruals in compliance with state accounting policy.

The Department of Public Health and Human Services is utilizing separate accounting entities to record separate federal activity. The Public Health Special Revenue Fund (03029) will be reconciled and the activity will be distributed to the appropriate funds.

DEPARTMENT OF ENVIRONMENTAL QUALITY

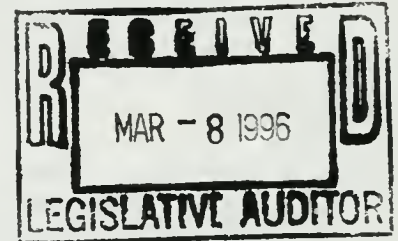


MARC RACICOT
GOVERNOR

MARK A. SIMONICH
DIRECTOR

STATE OF MONTANA

March 7, 1996



Mr. Scott A. Seacat
Legislative Auditor
Office of the Legislative Auditor
State Capitol
Helena, Montana 59620-1705

Dear Mr. Seacat:

By this letter, I am transmitting the Department of Environmental Quality's formal response to your Fiscal-Compliance Audit for the fiscal year ending June 30, 1995 for the Department of Health and Environmental Sciences.

We responded to recommendations #3 and 4A, directed to the DEQ and concur with both of them.

I would like to personally thank your office and the audit staff that was assigned to this endeavor for their dedication and professionalism throughout the course of this audit. Their findings and subsequent recommendations have provided a valuable service and insight to department management relative to our fiscal-compliance responsibilities.

I will be available, along with appropriate staff, for the scheduled March meeting of the Legislative Audit Committee.

Sincerely,

A handwritten signature in cursive script, appearing to read "M. Simonich".
Mark Simonich
Director

cc: Judy Hanson, Administrator
Centralized Services Division
MS:JH:jm\seacat96.jh

Page B-6

DEPARTMENT OF ENVIRONMENTAL QUALITY
RESPONSES TO FISCAL-COMPLIANCE AUDIT
FOR FISCAL YEAR ENDED JUNE 30, 1995
FOR
DEPARTMENT OF HEALTH AND ENVIRONMENTAL SCIENCES

Recommendation #3

We recommend DEQ ensure employees charge their time to the accounts benefitting from their activities.

Response

A. Concur

The department agrees with the recommendation as it relates to this appropriation. The current practice of charging a fixed percentage of personal services has been suspended. Employee records will be reviewed retroactive to January 1, 1996 to determine exactly how many hours have been expended on activities related to agricultural chemical ground water protection and necessary expenditure adjustments will be made accordingly.

Recommendation #4A

We recommend DEQ ensure the financial activity of environmental programs transferred to the department is recorded in accordance with state accounting laws and policies.

Response

A. Concur

The sections labeled Cash Cutoff Procedures, Improper Expenditure Cutoff, and Improper Revenue Accruals are all problems which occur during the fiscal year end closing period. The department will review the issues noted in the audit and make additional efforts during that period to assure that the financial activity is recorded properly.

The department will make an adjustment to address the issue in the section labeled Revenue Classification. The adjustment will be retroactive to July 1, 1995 for the fiscal year ending June 30, 1996. The revenue generated from the indirect charges for FY 96 and the future will be recorded into the different categories, Federal Indirect Cost Recoveries and Charges for Services.



